

impacted accounts. Notwithstanding all these benefits, VAL will still provide sufficient information for purposes of regulatory reporting and compliance, sustain controls in place to procure, maintain and secure support assets; and lastly, is capable of being implemented on a revenue neutral basis.

Despite the overwhelming support, the Commission failed to adopt VAL, choosing instead to raise the expense limit from \$500 to \$2,000 for Accounts 2115, 2116, 2122, 2123 and 2124 (except for PC components).³⁴ While that action offered some relief in the number of items carriers needed to capitalize, the instant proceeding warrants a adoption on its own basis.

Clearly, the Commission's denial of the VAL petition was not based upon a direct finding of fault with the VAL approach, but instead founded on the belief that raising the expense limit would provide ample relief to carriers. Raising the expense limit to \$2,000 was just a small (and obvious) step towards simplification. Moreover, the benefit of that action was muted significantly by the requirement to apply a \$500 limit to general purpose computers. The administrative simplicity afforded by the use of VAL would provide real and meaningful benefit to carriers. Accordingly, GTE urges the Commission to permit its use in conjunction with the simplification of Part 32.

c) Expense Limits

As mentioned above, the benefits LECs would have received from the increase in the expense limit from \$500 to \$2,000 were significantly lessened by the

Commission's requirement that general purpose computers remain subject to the \$500 limit. The Commission stated that this requirement was necessary to "protect regulated ratepayers from bearing the costs of PC components used in nonregulated activities."³⁵

Overlooked then and now is the fact that under current price cap rules, companies have little incentive to cross-subsidize their non-regulated activities. Yet despite this fact, companies are forced into tracking assets at an incredibly low level of detail (and incurring the cost to do so), with no benefit accruing to the ratepayer. To remedy this situation, GTE recommends that the FCC either (1) ameliorate the current expense limit rules by removing the restriction on general purpose computers; or (2) eliminate the expense limit rules altogether and defer to GAAP materiality considerations. Clearly, the "public interest" doctrine of the biennial review requires a lessening of the current burdensome recordkeeping requirements.

d) USTA's Comprehensive Recommendation

On February 19, 1998, USTA, at the request of the Commission, submitted a letter to Ken Moran, Chief of the Accounting and Audits Division, listing the industry's initial suggestions for simplifying the Part 32 USOA Rules and Regulations.³⁶ Included in this letter was a suggestion to move from Class A to Class B accounting for all

³⁴ Revision to Amend Part 32, Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment from \$500 to \$750, *Report and Order*, CC Docket No. 95-60, 12 FCC Rcd 7566 (1997).

³⁵ *Id.*, at 7572 (¶ 10).

³⁶ A copy of this letter is included as Attachment A.

carriers, along with other, more specific suggestions that were not included in the NPRM.

Subsequent to the letter, USTA representatives met directly with Commission staff to discuss these suggestions, including a meeting on May 1, 1998, in which industry "subject matter experts" attended to discuss the proposals in greater detail. A detailed matrix was presented at this meeting outlining the specific recommendation, its timetable for implementation, and the rationale supporting the change from both the LEC and public interest perspectives.³⁷ On June 4, 1998, as a follow-up to this meeting, USTA, in a letter to Jose Rodriguez, Chief of the Accounting Systems Branch, provided a document showing the actual changes to Section 32.2000 of the current Part 32 rules, that would be necessary to implement some of USTA's proposed changes.³⁸

The efforts by USTA and its members, as described above, were not heavy-handed attempts at forcing change, but aimed instead at raising awareness of these issues in hopes that, at minimum, they would be discussed in a public forum by all parties of interest. The most logical forum for consideration of these recommendations would have been the instant *NPRM*. However, with the exception of a handful of items of lesser significance that were included, the USTA efforts were largely ignored. GTE urges the Commission to review the list of proposed accounting changes advanced by USTA and expand the current *NPRM* to the extent Section 11 requires.

³⁷ This matrix is included as Attachment B.

³⁸ This document is included as Attachment C.

III. CONCLUSION

GTE generally supports the Commission's decision to consider, pursuant to Section 11 of the Communications Act, a review of FCC accounting rules. While GTE supports the Commission's recommendation to allow certain ILECs to use Class B accounts, there is no reason why GTE should not also be allowed to do so. Similarly, the CAM revisions adopted for mid-sized LECs should also apply to GTE. Finally, although GTE supports the minor accounting changes proposed in the *NPRM*, much more substantial Part 32 changes are warranted.

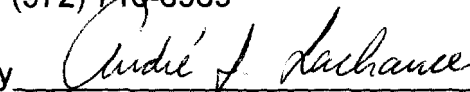
Dated: July 17, 1998

Respectfully submitted,

GTE Service Corporation and its affiliated
domestic telephone operating companies

John F. Raposa
GTE Service Corporation
600 Hidden Ridge, HQE03J27
P.O. Box 152092
Irving, TX 75015-2092
(972) 718-6969

By



Andre J. Lachance
GTE Service Corporation
1850 M Street, N.W.
Washington, DC 20036
(202) 463-5276

Their Attorneys



February 19, 1998

Mr. Kenneth P. Moran
Chief, Accounting and Audits Division
Federal Communications Commission
2000 L Street, NW, Room 812
Washington, DC 20554

Dear Mr. Moran:

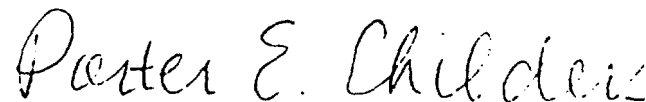
On behalf of the United States Telephone Association (USTA) and its more than 1000 incumbent local exchange carrier members, I want to thank you and the Commission for this opportunity to provide the industry's initial suggestions for simplifying FCC Part 32 (Uniform System of Accounts for Telecommunications Companies) rules and regulations.

The attached information represents USTA's initial suggestions. USTA has begun a comprehensive review of the current FCC Part 32 rules. In addition, USTA will be doing a review of FCC Part 64's Subpart 1 (Allocation of Costs) rules and regulations, and FCC Part 43 (Report of Communications Common Carriers and Certain Affiliates).

USTA is very pleased that the FCC has included these rules in its biennial review and is looking forward to participating in a constructive manner.

I would be happy to answer any questions from you or your staff about this material. You may reach me at 202-326-7268.

Sincerely,



Porter E. Childers
Executive Director -
Legal & Regulatory Affairs

Attachment

cc: Jose Rodriguez

PART 32 STREAMLINING (2/19/98)

This is a preliminary list of recommendations and does not reflect all items that could be considered in the Biennial Review NPRM. Examples are also not all inclusive. Items that have already been presented in PFRs to CC: Docket 96-150 have been separately identified.

Preliminary Recommendations

- Eliminate Part 32 allowing carriers to establish their own Chart of Accounts and follow GAAP accounting.
- Eliminate Affiliate Transaction Rules and Regulated/Nonregulated Accounting Requirements.
- Eliminate ARMIS reporting.

If Part 32 is not eliminated:

- Move from Class A accounts to Class B accounts for all carriers. Some examples of what this would achieve follow:
 - * Accounts such as 2114, 2115 and 2116 that have similar depreciation lives would be consolidated.
 - * Maintenance of outdated accounts would no longer be required - analog vs. digital vs. electro mechanical switching would no longer need to be separately tracked - intrabuilding cable which has been phasing out due to change in rate demarcation point would no longer need to be tracked, etc.
 - * Regulated Public Telephone Revenue would no longer be a required account
 - * Existing accounts would continue to handle new services (such as UNE's) or new activities (such as Universal Service Funds).
- Modify materiality to conform with GAAP. For example 32.26 could be deleted with reliance on GAAP materiality.
- Remove detailed instructions for all subsidiary records and rely on GAAP for both the accounting and the maintenance of subsidiary records. Carriers would be able to account for and establish subaccounts, subsidiary ledgers, tracking codes, etc., to meet GAAP, Tax, Foreign Corrupt Practices Act, and business requirements, rather than special regulatory requirements. This would mean:
 - * the elimination of the expense matrix requirements - 32.5999(f)
 - * the elimination of detailed retirement requirements - 32.2000(d)
 - * the elimination of detailed property record requirements - 32.2000(e) and (f)
 - * the elimination of detailed depreciation and amortization requirements - 32.2000(g) and (h)
 - * the elimination of references within specific Part 32 accounts to maintain subsidiary records. Individual accounts (too numerous to list here & can be supplied at a later date) should no longer be codified to require subsidiary records. Companies should use GAAP, Tax, Foreign Corrupt Practices Act, and business requirements standards.
- Move to GAAP for the recognition and accounting of capitalized items. For example 32.2000(a)(4), 32.2000(b), 32.2000(c) could be eliminated with reliance on GAAP.
- Move to GAAP for accounting for software. For example 32.2000(i) could be eliminated with reliance on GAAP.
- Remove requirement to pre-notify the Commission Staff before journalization. For example eliminate 32.25 - notification for extraordinary items, 32.2000(b)(4) - certain plant acquisitions, 32.5999(f)(5) establishment of new clearing accounts, 32.16(a) - intent to comply with new GAAP standards. etc.
- Eliminate specialized annual inventory procedures. For example eliminate 32.2310(f) - special inventory requirements for Station Apparatus.

PART 32 STREAMLINING (2/19/98)

- Allow for assets to be recorded by asset type rather than by use: For example, all multiplexers could be recorded in Account 2210 rather than in both 2210 and 2310; All computers could be recorded in 2110 rather than distinguishing between both network operations computers and general purpose computers, etc.
- Eliminate the requirement to segregate deferred tax gross up. (See attached proposed Part 32 wording changes)
- Account 5280 definition in paragraph (a) should be modified to remove "... and not provided for elsewhere". This would allow all future nonregulated revenue to be journalized to Account 5280.
- The following accounts could be eliminated:
 - * 4341 - Can be consolidated with Account 4340. (See attached proposed Part 32 wording changes)
 - * Accounts that are used solely for ratemaking purposes can be eliminated. For example 2005, 2006, etc. (Note: Rate of Return companies can maintain this information in subsidiary records.)
 - * Jurisdictional Difference Accounts (for example 1500, 4370, 7910) can be eliminated. Companies can identify these differences in locally defined subsidiary records.
- Special accounting for ratemaking purposes should no longer be required for companies no longer on rate of return regulation. For example 32.16 (a) revenue requirements study, 32.2000(c)(2)(x) special AFUDC calculation, etc.

If Part 32 Affiliate Transaction Rules are not eliminated:

- Streamline 32.27 Affiliate Transaction requirements. Remove unnecessary > 50% test and EFMV regulation for OTC nonregulated activities. Reassess the need for OTC EFMV tests based on 1997 results.
 - * Cost and Revenue for OTC nonregulated assets or services are already accounted as nonregulated on the OTC books of account. OTC journalization of either a sale or purchase to a Directly Assigned Nonregulated cost pool, makes both the >50% test and the comparison of FDC vs. EFMV unnecessary regulation. (Note: Sale of a nonreg service would be booked to nonreg revenue; sale of a nonreg asset would be booked as a nonreg retirement; purchases for nonreg activities would be booked to either a nonreg asset or a nonreg expense.)
 - * In reviewing 1998 Part 64 audit results, if a majority of the FDC vs. EFMV comparisons show OTC FDC costs as higher, remove the ongoing requirement for costly EFMV tests for any sale from the OTC to a nonregulated affiliate and return to reliance on FDC.

If ARMIS is not eliminated:

- ARMIS reporting should be modified to incorporate any new changes to Part 32. Redundant information should be eliminated (for example same information on multiple reports at different levels). Outdated breakdown of information should be eliminated (for example breakdown available under Part 31 that is no longer necessary under Part 32, rate of return information that is no longer necessary under price caps, etc.). USTA task force presented initial recommendations to the ARMIS staff in 1996.

LEC PFRs Related to CC Docket 96-150

- Extend the service company exception (use of FDC rather than a comparison of FDC and EFMV) for OTC sales to a service company. Allow both a carrier's sales to as well as purchases from the service

PART 32 STREAMLINING (2/19/98)

company to be recorded at fully distributed cost. Costs billed by the carrier to the service company will be allocated back to the carrier and be inflated due to the price of calculating the estimated fair market value and to higher price billed by the carrier to the service company.

- Allow the Parent Holding Company or the carrier itself the same exception for providing centralized administrative services to the corporate family.
- Reconsider the 50% benchmark. Adopting a wholly arbitrary 50% generally eliminates prevailing price as a practical option. This arbitrary condition means that transactions with unaffiliated firms even in the hundreds of millions of dollars shall not be accepted as proving the validity of affiliate pricing in market terms. Furthermore price caps without sharing effectively breaks the link (as intended) between incremental cost increases and the carrier's ability to raise rates or forego price reductions. Such a arbitrary benchmark is not necessary.
- Reconsider application of the affiliate transaction rule when activity is an OTC nonregulated activity.
- Rather than account for incidental interLATA services as nonregulated, the problems the Commission suggests exist with Parts 36, 69 and 61 of the current rules should be fixed.
- Commission should either completely refrain from regulating incidental interLATA services, or treat all Title II common carrier communications services consistently as regulated under its accounting rules.
- Exogenous changes should not be required with every routine reassignment of costs from regulated to nonregulated.

PART 32 STREAMLINING (2/19/98)

PROPOSED PART 32 REVISIONS TO TAX ACCOUNTS

RELATED TO NETTING REG ASSET AND REG LIABILITY:

Account 4361 - Regulatory Liability should be changed to read the following:

(a) This account shall include amounts of probable future ~~revenue net reductions in revenues attributable to future decreases in taxes payable.~~ *(future revenue reductions in excess of future revenue increases)* attributable to:

1- future net decreases to taxes payable related to the tax effects of temporary differences accounted for under the flow-through method (future decreases in excess of future increases).

2 - the impact of tax rate decreases in excess of tax rate increases on net deferred tax liabilities (deferred tax liabilities in excess of deferred tax assets) for those temporary differences underlying its existing balance

3 - the impact of tax rate increases in excess of tax rate decreases on net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) for those temporary differences underlying its existing balance.

As net reductions in revenue occur, amounts recorded in this account shall be reduced with a debit entry and a credit entry to account 4341 (or 4340 if 4341 is eliminated).

Account 1437 - Regulatory Asset should be changed to read as follows:

(a) This account shall include amounts of probable future ~~net increases in revenues for the recovery of future increases in taxes payable.~~ *(future revenue increases in excess of future revenue decreases)* attributable to:

1- future net increases to taxes payable related to the tax effects of temporary differences accounted for under the flow-through method (future increases in excess of future decreases).

2 - the impact of tax rate increases in excess of tax rate decreases on net deferred tax liabilities (deferred tax liabilities in excess of deferred tax assets) for those temporary differences underlying its existing balance

3 - the impact of tax rate decreases in excess of tax rate increases on net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) for those temporary differences underlying its existing balance.

As net increases in revenue ~~reversals~~ occur, amounts recorded in this account shall be reduced with a credit entry and a debit entry to account 4341 (or 4340 if 4341 is eliminated).

PART 32 STREAMLINING (2/19/98)

PROPOSED PART 32 REVISIONS TO TAX ACCOUNTS

RELATED TO ELIMINATING THE GROSS-UP:

Section (a) of Part 32.4341 needs to be deleted.

RELATED TO ELIMINATING ACCOUNT 4341:

Part 32.4341, Sections (b)(1) through (4) and (c) should be included under Part 32-4340 and renumbered as (f)(1) through (4) and (g).

Members

Washington, DC

Meeting called by: USTA
Accounting/Cost
Allocation Team

Call In Number: xxx-xxx-xxxx, then dial , then dial

Please begin calling in at 12:45. USTA will call in at 12:40. This will allow USTA to call-in first. (If the first caller hangs up, the connection is broken.)

Type of meeting: Information Sharing

Attendees: USTA Accounting/Cost Allocation Team Representatives and FCC Staff

A. Preparatory Review	USTA Presenters	11:00 a.m. - Noon
B. Lunch	USTA Presenters/FCC Staff	Noon - 12:40 p.m.
C. Establish call-in bridge	Joann Barron/USTA members	12:40 - 12:50 p.m.
D. Welcome and Meeting Overview	Joann Barron	12:50 - 01:00 p.m.
E. Suggested Areas for Simplification		
1. Part 32.2000 Property Records/Depreciation	Tom Whittaker	01:00 - 01:30 p.m.
2. Other Part 32 Subsidiary Records	Dell Coleman	01:30 - 01:40 p.m.
3. Part 32 Pre-Approvals/Notification	Dell Coleman	01:40 - 01:50 p.m.
4. Consolidate Part 32 Accounts		
Tax Accounts	Joann Barron	01:50 - 01:55 p.m.
Other Accounts	Betty Knapp	01:55 - 02:25 p.m.
5. Near/Term and Future Part 32 Changes	Jeannie Fry	02:25 - 02:35 p.m.
6. Part 64 and Part 32 Affiliate Transactions	Jim Deignan	02:35 - 03:05 p.m.
F. Closing and Follow-up Review	Joann Barron	03:05 - 03:15 p.m.

Special notes: Those of you who will be attending either in person or by phone PLEASE NOTIFY PORTER by COB Monday, April 27. Indicate whether attending in person or by phone. Head Count needs to be finalized for lunch and for the conference bridge.

USTA PART 32 AND PART 64 STREAMLINING
May 1, 1998

PART 32.2000 PROPERTY RECORDS/DEPRECIATION

TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
Immediate ITEM 1	Part 32.2000 Property Records/Depreci ation	Streamline Property Record/Depreciation Requirements See ATTACHMENT 1 for revised Part 32 language for 32.2000	<p><i>Burden to LEC</i> - The current property record requirements codified in Part 32 are extremely burdensome and costly to maintain. The benefits of preparing and keeping records as detailed in Part 32 must be measured against the costs of constructing the records, which may not even be used to any substantial degree. Such detailed information adds little value to LEC records and has no relationship to the prices charged for services in todays environment. It is not only administratively burdensome to prepare this information but this data has no relevance to price cap indexes or exogenous costs nor does it bear any relationship to forward looking and hypothetical costs (which will be used after January 1, 1999) under universal service.</p> <p><i>Public Interest Considerations</i> - The public is already protected with the internal controls requirements of the annual financial audit required for SEC purposes, the Foreign Corrupt Practices Act of 1977 as well as Generally Accepted Accounting Principles. Public benefits because the reduction of regulatory burdens helps LECs become more competitive.</p>

USTA PART 32 AND PART 64 STREAMLINING
May 1, 1998

ER PART 32 SUBSIDIARY RECORDS

AGING/ITEM#	AGENDA AREA	ACTION	RATIONALE
mediate ITEM 2A	Subsidiary Recs	Eliminate the expense matrix categories required in Section 32.5999(f). Telecommunications carriers are required to identify the amount included in each Part 32 expense account (61xx-67xx) for salaries and wages, benefits, rents, other expenses, and clearances.	<i>Burden to the LEC - Carriers incur administrative costs and systems cost to track expenses by these matrix categories. Carriers are simply being required to incur cost their competitors do not have to incur.</i> <i>Public Interest Consideration - Under the current regulatory paradigm of price regulation, maintaining these detailed jurisdictional records provide no apparent benefit for regulatory purposes or as competitive safeguards.</i>
mediate ITEM 2B	Subsidiary Recs	Eliminate the requirement to maintain subsidiary records by Metallic and NonMetallic in Cable Accounts 2421 to 2425.	<i>Burden to the LEC - Carriers must incur the cost of publicly reporting this information, whereas carrier competitors do not have this requirement.</i> <i>Public Interest Considerations - There is no compelling regulatory need to know the breakdown between metallic and nonmetallic plant. Moreover, it puts LECs at a disadvantage in that they must disclose to competitors the mix of assets used to serve customers while competitors do not have to disclose this information. This requirement increases LECs cost thereby reducing the ability to compete</i>
Immediate ITEM 2C	Subsidiary Recs	Subsidiary record requirements should not be more detailed than required under generally accepted accounting principals. Modify 32.12 as follows: (a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts. (b) The company's financial records shall be kept with sufficient details to support the facts pertaining to the accounts as required under generally accepted accounting principles. particularly to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible by representatives of this Commission. (c) The Commission shall require a company to maintain financial and other subsidiary records in such a manner that it satisfies internal control requirements, is auditable, and represents the company's financial position. specific information, of a type not warranting disclosure as an	<i>Burden to LEC - Additional effort and costs are expended to maintain subsidiary records at a level of detail that is not needed to run the business.</i> <i>Public Interest Considerations - Tax rules, Foreign Corrupt Practices Act and GAAP provide guidance on when subsidiary record requirements are maintained. These existing standards also require that subsidiary records reconcile to the Company's general books. Additional regulatory guidance in this area is not necessary. Effort could be diverted to creating new products and services and reduced costs used to make existing prices more competitive</i>

USTA PART 32 AND PART 64 STREAMLINING
May 1, 1998

NG/ITEM#	AGENDA AREA	ACTION	RATIONALE
		<p>account or subaccount, will be readily available. When this occurs, or where the full information is not otherwise recorded in the general books, the subsidiary records shall be maintained in sufficient detail to facilitate the reporting of the required specific information. The subsidiary records, in which the full details are shown, shall be sufficiently referenced to permit ready identification and examination by representatives of this Commission.</p> <p><i>(d) The company's subsidiary records shall be accessible by representatives of the Commission and retained according to Part 42 of the Commission's rules.</i></p>	

USTA PART 32 AND PART 64 STREAMLINING

May 1, 1998

Part 32 PRE-APPROVALS/NOTIFICATION

ITEM#	AGENDA AREA	ACTION	RATIONALE
Immediate ITEM 3A	Notification	<p>Eliminate the requirement for FCC approval prior to adoption of changes in Accounting Standards by carriers.</p> <p><u>Modify Section 32.16 Changes In Accounting Standards As Follows:</u></p> <p>(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. The change in accounting standard will automatically take effect 90 days after the company informs this Commission of its intention to follow the new standard, unless the Commission notifies the company to the contrary. Concurrent with informing this Commission of its intent to adopt an accounting standards change, the company shall also file a revenue requirement study for the current year and a projection for three years into the future analyzing the effects of the accounting standards change. Furthermore, any Changes subsequently adopted by carriers shall be disclosed in annual reports to this Commission. Companies are required to notify the Commission of new accounting standards that will not be adopted on a USOA basis.</p> <p>(b) The changes in accounting standards which this Commission approves the carriers adopt will not necessarily be binding on the ratemaking practices of the various state commission.</p>	<p><u>Burden to the LEC:</u></p> <p>Even though the FCC's Part 32 rules permit LECs to adopt new standards or changes in existing GAAP, LECs must file complex revenue requirements that have little or no regulatory value under current regulatory paradigms. A Revenue Requirement study for the current year and a projection for three future years is administratively burdensome and costly to calculate.</p> <p>The required approval process to implement GAAP delays the implementation and creates additional documentation burdens for LECs that competitive carriers do not have. Once the FASB provides authoritative guidance, LEC's competitors simply implement the change in the most cost effective manner. Furthermore, a delay caused by the process of obtaining and receiving approval, requires the LECs to maintain separate records - one set for external GAAP purposes and one set for USOA purposes. Creating additional unnecessary recordkeeping is inefficient.</p> <p><u>Public Interest Considerations</u></p> <p>The FCC Part 32 rules incorporate generally accepted accounting principles (GAAP). The Financial Accounting Standards Board (FASB) provides a process through which proposed changes in GAAP are exposed for debate, discussion and evaluation. Automatic incorporation of GAAP accounting standards into Part 32., enables companies to provide the public with comparable financial information to make informed decisions and review results.</p>
Immediate ITEM 3B	Notification	<p>Modify the requirements in Section 32.25 and 32.26 to eliminate the necessity to notify the Commission prior to booking unusual items and contingent liabilities and to eliminate not following GAAP guidance on materiality.</p> <p><u>Modify Sections 32.25 And 32.26 As Follows:</u></p> <p>32.25 Unusual items and contingent liabilities.</p>	<p><u>Burden to the LEC:</u></p> <p>Companies are required to maintain accounting records in accordance with GAAP. The submission to the Commission of prior approval of unusual items and contingent liabilities adds an additional delay to the recording of the items and could cause differences between USOA and external books. This results in additional costs of recordkeeping and places an extra burden on the LECs to notify the FCC.</p>

USTA PART 32 AND PART 64 STREAMLINING

May 1, 1998

TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
		<p>Extraordinary items, prior period adjustments and contingent liabilities shall be submitted to this Commission for review before being recorded in the company's books of account in accordance with the requirements of generally accepted accounting principles (GAAP). The materiality of corrections of errors in prior periods shall be measured in relation to the summary account level used for reporting purposes for Class A carriers, or in relation to total operating revenues or total operating expenses for Class B carriers. For Class A carriers, no correction in excess of one percent of the aggregate summary account dollars or one million dollars, whichever is higher, may be recorded in current operating accounts without prior approval. For Class B carriers, no correction which exceeds one percent of total operating revenues or one percent of total operating expenses, depending on the nature of the item, may be recorded in current operating accounts without prior approval.</p> <p>32.26 Materiality.</p> <p>Companies shall follow this system of accounts in recording all financial and statistical data. When errors occur or better estimates become available corrections should be made based on the GAAP. irrespective of an individual items criteria of materiality, under GAAP, unless a waiver has been granted under the provisions of § 32.18 of this subpart to do otherwise.</p>	<p><u>Public Interest:</u></p> <p>The FCC Part 32 rules incorporate generally accepted accounting principles (GAAP) which provides guidance (e.g., SFAS No. 5) on these type of items. Having adopted GAAP, there is no need or public benefit from an additional review or from regulations by the Commission. The public interest is served when regulations that no longer add value to the process are removed. Carriers could redirect those resources to meet the current customer demands for new and improved services</p> <p><u>Burden to LEC:</u></p> <p>The cost to record individual items irrespective of materiality under GAAP is burdensome, adds additional cost to track immaterial items, and does not add any value to the financial information already provided on a GAAP basis.</p> <p><u>Public Interest:</u></p> <p>It is in the best interest of the public to eliminate this requirement and allow the LECs to adopt a materiality threshold to its financial data. This will save unnecessary cost which in turn makes LECS more competitive. Proper internal controls, reviewed by independent auditors as part of the LEC's annual external reporting process, assures the public that the financial statements are fairly stated and reported.</p>
Immediate ITEM 3C	Notification	<p>Eliminate the requirement to notify the Commission before establishing clearing accounts. Modify Section 32.13(a)(3).</p> <p>(3) A company may establish temporary or experimental accounts provided that within 30 days of the opening of such accounts the company notifies the Commission of the nature and purpose thereof.</p>	<p><u>Burden to LEC</u> - Clearing accounts are temporary accounts. These accounts are closed each financial period and do not appear in financial statements. The submission to the Commission of prior approval of temporary accounts adds a delay to the recording and processing of the items to the final accounts.</p> <p><u>Public Interest Considerations</u> - All Temporary Account entries are ultimately recorded in final accounts. The final accounts are USOA accounts subject to Part 32 requirements.</p>
Immediate	Notification	Submission to the Commission of Telephone Plant Acquisition Journal	<u>Burden to the LEC</u> - The submission to the Commission of the journal

USTA PART 32 AND PART 64 STREAMLINING
May 1, 1998

TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
ITEM 3D		<p>Entries 32.2000 (b)(4):</p> <p>Eliminate the requirement that Class A and Class B companies should submit to the Commission their journal entries for acquisitions of telecommunications plant in the amounts of \$1,000, 000 or greater for Class A and \$250,000 or greater for Class B telephone companies.</p>	<p>entries causes an additional layer of continuing record processing which adds unnecessary cost.</p> <p><i>Public Interest Considerations</i> - It is in the best interest of the public to eliminate the rule since it will save unnecessary cost which impacts the cost of services customers pay. The customers will be protected since Class A telephone companies and those Class B companies who are RUS borrowers are audited annually. The remaining Class B companies would see minimal activity and that activity would be disclosed to each state's public service commission through the LEC's annual report.</p>

CONSOLIDATE PART 32 ACCOUNTS

TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
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USTA PART 32 AND PART 64 STREAMLINING

May 1, 1998

TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
Immediate ITEM 4A	Consolidate Accounts	No longer require the calculation of tax gross up. Journalize the OTC's net effect of excess/deficit federal and state deferred taxes and taxes related to Part 31 flow through items to either a regulatory asset (1437) or a regulatory liability account (4361), as appropriate. Consolidate Accounts 4340 and 4341. [See Attachment 2 for Part 32 changes]	<i>Burden to LEC</i> -- Companies are required to maintain accounting records in order to meet Federal, State and Local Tax requirements. Further regulatory specifications offer no additional ratepayer protection or competitive safeguards. <i>Public Interest</i> -- Eliminating tax gross up calculations which are not necessary for financial reporting as well as eliminating more detailed recordkeeping requirements will decrease regulatory burdens by decreasing work efforts. Reduced work efforts reduce costs. This in turn helps companies become more competitive.
Immediate ITEM 4B	Consolidate Accts	Eliminate mandated subaccounts: 1220.1 Inventories - Material & Supplies 1220.2 Inventories - Property Held for Sale or Lease 1406.1 Non-Regulated Investments - Permanent Investment 1406.2 Non-Regulated Investments - Receivable/Payable 1406.3 Non-Regulated Investments - Current Income or Loss 2123.1 Office Equipment - Office Support Equipment 2123.2 Office Equipment - Company Communications Equipment 2215.1 Electro-Mechanical Switching - Step-by-Step 2215.2 Electro-Mechanical Switching - Crossbar Switching 2215.3 Electro-Mechanical Switching - Other Electro-Mechanical 2231.1 Radio Systems - Satellite & Earth Station Facilities 2231.2 Radio Systems - Other Radio Systems	<i>Burden to the LEC:</i> Maintaining unnecessary detail for regulatory purposes is a costly administrative burden. Such detail is not needed for ratemaking or business purposes. Some items such as step-by-step and crossbar technology are being replaced with newer technology. Other accounts, such as Nonregulated Investment, are not frequently used. <i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
Immediate ITEM 4C	Consolidate Accts	Eliminate Class A Account detail for Cash 1130 Cash and Cash Equivalents 1140 Cash 1150 Cash Advances Create and maintain Class B Account for Temporary Investments 1160 Temporary Investments	<i>Burden to the LEC:</i> Maintaining unnecessary detail for regulatory purposes is a costly administrative burden. Such detail is not needed for ratemaking or business purposes. Cash Account detail is not relevant to FCC regulatory oversight. <i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
Immediate ITEM 4D	Consolidate Accts	Eliminate Class A Account detail for Prepayments 1290 Prepaid Rents 1300 Prepaid Taxes 1310 Prepaid Insurance 1320 Prepaid Directory Expense 1330 Other Prepayments	<i>Burden to the LEC:</i> Maintaining unnecessary detail for regulatory purposes is a costly administrative burden. Such detail is not needed for ratemaking or business purposes. Individually, these amounts are likely to be immaterial, and they are not relevant for FCC regulatory oversight.

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TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
			<i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
Immediate ITEM 4E	Consolidate Accts	Eliminate Class A Account detail for Information Origination/Termination Assets 2311 Station Apparatus 2321 Customer Premises Wiring 2341 Large Private Branch Exchanges 2351 Public Telephone Equipment 2362 Other Terminal Equipment	<i>Burden to the LEC:</i> Maintaining unnecessary detail for regulatory purposes is a costly administrative burden. Much of what used to be in these accounts is non-regulated and/or obsolete, and Nonregulated cost pools will capture the nonregulated investment. <i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
Immediate ITEM 4F	Consolidate Accts	Eliminate Class A Account detail for Local Service Revenue 5001 Basic area revenue 5002 Optional extended area revenue 5003 Cellular mobile revenue 5004 Other mobile services revenue 5010 Public telephone revenue 5040 Local private line revenue 5050 Customer premises revenue 5060 Other local exchange revenue 5069 Other local exchange revenue settlements	<i>Burden to the LEC:</i> Maintaining unnecessary detail for regulatory purposes is a costly administrative burden. Reporting Local Revenue detail that is not required for federal regulatory oversight puts LECs at a competitive disadvantage. Elimination of 5010 assumes that Payphone revenue is grouped with other Non-regulated revenues in 5280. <i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
Immediate ITEM 4G	Consolidate Accts	Eliminate Class A Account detail for certain Long Distance Revenues 5110 Unidirectional long distance revenue 5111 Long distance inward-only revenue 5112 Long distance outward-only revenue 5121 Subvoice grade long distance private, network revenue 5122 Voice grade long distance private, network revenue 5123 Audio program grade long distance, private network revenue 5124 Video program grade long distance, private network revenue 5125 Digital transmission long distance, private network revenue 5126 Long distance private network, switching revenue 5128 Other long distance private network revenue 5129 Other long distance private network, revenue settlements 5169 Other long distance revenue settlements	<i>Burden to the LEC:</i> Maintaining and reporting unnecessary detail not required for federal regulatory oversight is a costly administrative burden and puts the LECs at a competitive disadvantage, <i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
Immediate	Consolidate	Eliminate Class A Account detail for certain Miscellaneous Revenues	<i>Burden to the LEC:</i> Maintaining and reporting unnecessary detail not

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TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
ITEM 4H	Accts	5261 Special billing arrangements revenue 5262 Customer operations revenue 5263 Plant operations revenue 5264 Other incidental regulated revenue 5269 Other revenue settlements	required for regulatory oversight is a costly administrative burden and puts the LECs at a competitive disadvantage. <i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
Immediate ITEM 4I	Consolidate Accts	Eliminate Class A Account detail for certain Plant Expenses 6311 Station apparatus expense 6341 Large private branch exchange expense 6351 Public telephone terminal equipment expense 6362 Other terminal equipment expense	<i>Burden to the LEC:</i> Maintaining and reporting unnecessary detail not required for federal regulatory oversight is a costly administrative burden and puts the LECs at a competitive disadvantage. Much of what used to be in these accounts is non-regulated and/or obsolete. Nonregulated cost pools will capture the nonregulated investment. Expense accounts should be consistent with elimination of Plant Asset Accounts <i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
Immediate ITEM 4J	Consolidate Accts	Eliminate Class A Account detail for certain Customer Operations Expenses 6611 Product Management 6612 Sales 6613 Product Advertising	<i>Burden to the LEC:</i> Maintaining and reporting unnecessary detail not required for federal regulatory oversight is a costly administrative burden and puts the LECs at a competitive disadvantage. Even for GAAP Segment Reporting, costs would not be separated between Product Management, Sales, and Product Advertising. <i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
Immediate ITEM 4K	Consolidate Accts	Eliminate Class A Account detail for Executive Expenses 6711 Executive 6712 Planning	<i>Burden to the LEC:</i> Maintaining and reporting unnecessary detail not required for federal regulatory oversight is a costly administrative burden and puts the LECs at a competitive disadvantage. <i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
Immediate	Consolidate	Eliminate Class A Account detail for Extraordinary Expenses	<i>Burden to the LEC:</i> Maintaining and reporting unnecessary detail

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ITEM 4L	Accts	7610	Extraordinary Income Credits	required for federal regulatory oversight is a costly administrative burden and puts the LECs at a competitive disadvantage. <i>Public Interest Consideration:</i> Elimination of mandated accounts reduces unnecessary recordkeeping and costs. Public interest is best served when LECs operate at the lowest possible cost in order to compete.
		7620	Extraordinary Income Charges	
Immediate ITEM 4M	Consolidate Accts	Eliminate Jurisdictional Difference Accounts		<i>Burden to LEC</i> - Currently LECs are required to make special journal entries into three Jurisdictional Difference Accounts to record the totals of non-USOA subsidiary records. <i>Public Interest Considerations</i> - The Jurisdictional Difference Accounts are not used for Federal regulatory oversight as these accounts contain financial data that is not applicable to the Federal Jurisdiction. The Jurisdictional Difference accounts contain information that is non-USOA in nature. These accounts are not used either in establishing price caps or in federal rate of return regulation processes.
		1500	Other Jurisdictional Assets - Net	
		4370	Other Jurisdictional Liabilities & Deferred Credits- Net	
		7910	Income Effect of Jurisdictional Ratemaking Differences - Net	

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NEAR TERM AND FUTURE PART 32 CHANGES

TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
Near Term ITEM 5A	Consolidate Accts	Go From Class A to Class B for All Accounts	<p><i>Burden to Lec:</i> Moving to Class B level would decrease burden to LECs because where not necessary for business purposes, the cost of maintaining a detailed level of recording of information would no longer need to be incurred.</p> <p><i>Public Interest Considerations:</i> Gives some flexibility to midsize and larger ILECs while still allowing for regulatory monitoring. This is in the public interest because lower costs allows for LECs to be more competitive. For example, the expenses associated with maintaining records at Class A level is money not spent on consumer education and service, infrastructure upgrades or development of innovative service offerings.</p>
Future Item 5B	-----	Replace Chart of Accounts with requirement to follow GAAP	<p><i>Burden to LEC</i> - Puts LECs at a competitive disadvantage. IXC's, CLECS, etc., are not strapped with the regulatory burden of maintaining account structures that are uniform throughout the industry.</p> <p><i>Public Interest Consideration</i> - Public benefits because reduced regulatory burdens will make ILECS more competitive.</p>

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PART 64 AND PART 32 AFFILIATE TRANSACTIONS

TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
Immediate ITEM 6A	Forecasts	Simplify the process of allocating Central Office and Outside Plant accounts by no longer requiring usage forecasts. The existing allocation methods identified in 64.901(b)(1) through (3) are sufficient cost allocation principles. Delete 64.901(b)(4).	<p><i>Burden to LEC</i> - Forecasting is burdensome and is a prediction, not an actual result. With the evolution of Price Cap regulation, extreme precision in allocation is not necessary to protect ratepayers. Furthermore, other regulatory allocation processes, such as Part 36 and Part 69, do not require such detailed allocation processes. For example, Part 36 and 69 allocations are performed at a Class B account level - even for Class A companies - and do not involve prospective 3 year forecasting.</p> <p><i>Public Interest Consideration</i> - Price caps already protects the ratepayer. For companies on rate of return regulation existing allocation rules, 64.901(b)(1) through (3), are sufficient ratepayer protection. Forecasting is not necessary either to protect the ratepayer or to foster competition. Requiring such detailed processes is costly with no added public benefit.</p>
Immediate ITEM 6B	Materiality	Modify RAO 12 to change the adjustment threshold from \$1 million individually or in the aggregate on <u>nonregulated</u> operations to \$2 million individually on <u>nonregulated</u> operations.	<p><i>Burden to LEC</i> - Items that are by themselves immaterial are required to be adjusted if in the aggregate these items equal or exceed \$2 million. Such precision in reporting Part 64 results should no longer be required.</p> <p><i>Public Interest Consideration</i> - Effort and cost of making an immaterial adjustment yields limited if any public benefit.</p>
Immediate ITEM 6C	CAM Changes	Eliminate the requirement to quantify CAM changes.	<p><i>Burden to LEC</i> - Quantifications are projections or estimates based on conditions at the time the projection is made. Such conditions continually change. The LEC should not be required to expend resources to perform such a quantification.</p> <p><i>Public Interest Consideration</i> - It is whether the allocation method or the basis for the affiliate transaction is a reasonable method, rather than the quantification of the change, that should be the determining factor for accepting or rejecting CAM revisions.</p>

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Immediate ITEM 6D	Audit	Provide for sunset of the Part 64 audit.	<p><i>Burden to LEC</i> - Audits are costly to perform.</p> <p>For companies not on Price Caps with no sharing, the cost of the audit is passed onto ratepayers. Estimates range from \$100,000 to \$1,000,000 a year. Adding the cost of preparing the CAM as well as auditing the CAM, some companies show costs of \$.70 to \$2.47 per access line.</p> <p>Even the Telecommunications Act has recognized that newly prescribed audits will sunset. There is no sunset provision for Part 64 Annual Audits in today's rules.</p> <p><i>Public Interest Consideration</i> - Price caps already protects ratepayers. Part 64 cost allocation is not used to set prices for competitive services. Precision in cost allocation is not an essential process in the development of competitive services. The public does not receive any additional benefit from an annual external audit of the Part 64 process.</p>
Immediate ITEM 6E	Affiliate Transactions	Provide for a 1 year sunset to the Part 32.27 affiliate transaction rules for using two evaluation methods for LEC sales to nonregulated affiliates. The LEC should not be required to use two different methods to evaluate the same transaction.	<p><i>Burden to LEC</i> - Obtaining estimated fair market value is costly. A sunset provision should be added for the requirement to use two methods to evaluate the same LEC sale to a nonregulated affiliate. Review of current results should be sufficient to select one method for prospective use.</p> <p><i>Public Interest Consideration</i> - Using the LEC's fully distributed cost insures that the actual LEC costs are recovered. Ratepayers are protected by price caps. Neither Part 64 cost allocations, nor the resulting journalization of Part 32 affiliate transactions, is used to set prices for competitive services. The public interest is not served by requiring the calculation of two valuation methods for the same affiliate transaction.</p>

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TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
Immediate ITEM 6F	Affiliate Transactions	Add an annual dollar threshold of > \$250,000 per transaction before requiring the calculation of two different methods to evaluate the same Part 32.27 affiliate transaction.	<p><i>Burden to LEC</i> - Obtaining estimated fair market value is costly. Establishing a dollar threshold before requiring the calculation of estimated fair market value would avoid subjecting low value transactions to such a costly process.</p> <p><i>Public Interest Consideration</i> - Neither Part 64 cost allocations, nor the resulting journalization of Part 32 affiliate transactions, is used to set prices for competitive services. The public interest is not served by requiring the calculation of two valuation methods for the same affiliate transaction.</p>
Near Term ITEM 6G	Fixed Factor	Work with the Industry to modify the Part 64 Allocation process to make use of fixed factors at Class B account level rather than detailed allocation methods and procedures.	<p><i>Burden to LEC</i> - Use of fixed factors will greatly simplify the cost allocation process as well as the associated CAM filings, Audit and ARMIS reporting. CAM filings would be replaced with the Company's Class B Account and the Fixed Factor for that account.</p> <p><i>Public Interest Considerations</i> - Price caps protects ratepayer from cross subsidization. Because Price Caps severs the link between price and cost, the amount of allocated cost is of no consequence. Hence, Part 64 offers no additional protection. As the Commission has already indicated, Part 64 costs are not used to price competitive services and it is the antitrust laws that protect against predatory pricing (See 86-111, Par 40).</p> <p>There is no additional benefit to the public by retaining a complex allocation process.</p>